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Exhibit 1 - Vermont Principles on Electric Industry Restructuring

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6140

Investigation into the Reform of Vermont's)
Electric Power Supply)

**A WORKING PLAN TO RESTRUCTURE
A SIGNIFICANT PORTION
OF
VERMONT'S ELECTRIC UTILITY INDUSTRY**

March 3, 1999

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I. INTRODUCTION

This position paper presents the “working plan” of Central Vermont Public Service Corporation (“CVPS”) and Green Mountain Power Corporation (“GMP”)(together the “Companies”) to work with other utilities, interested constituencies, existing power suppliers, the Vermont Public Service Board, and the Vermont Department of Public Service (the “Department”) to restructure comprehensively their electric utility businesses (the “Plan” or the “Companies’ Plan”). This paper also outlines the way in which the Companies will develop the Plan before the Vermont Public Service Board (the “Board” or “PSB”) in order to enable the Board to ensure that the implementation of the Plan is in the best interest of Vermont.

We present a plan that can work; it can be implemented expeditiously; and it will eventually lead to a competitive marketplace for electricity, a marketplace in which the cost of electricity should be lower than it otherwise would be.

II. FIRST PRINCIPLES

The Plan is based on the fourteen principles entitled “Vermont Principles on Electric Industry Restructuring”, which were developed by the Vermont Roundtable on Competition and adopted by the Board in its seminal report in Docket No. 5854, dated December 31, 1996. A copy of the Docket No. 5854 principles is attached as Exhibit 1. The Plan also incorporates the practical

insights described in the Report of the Working Group on Vermont's Electricity Future ("the Working Group Report"), dated December 18, 1998.

III. THE NINE PLAN ELEMENTS

The Plan calls for nine critical tasks to be accomplished. Those critical tasks will be the subject of nine proceedings that the Companies will commence, alone or in conjunction with others, before the Board¹. The Plan contemplates that the petitions to commence these proceedings will all be filed by September 1999. The tasks can be accomplished utilizing the existing Vermont and federal legislative regime that governs the regulation of electric utilities. No new legislation is required. Here is a brief summary of each petition that has been, or will be, filed:

- The HQ Petition. A petition will be filed in Docket No. 5330, which will commence Docket No. 5330-G. The petition will seek Board approval of (i) a new amendment to the Firm Power and Energy Contract with Hydro-Québec, (the "HQ Contract") under which Hydro-Québec ("HQ") electricity is delivered to Vermont, and (ii) a new amendment to the related Hydro-Québec Participation Agreement (the "Participation Agreement"), under which Hydro-Québec electricity is allocated to fifteen electric utilities (the "Participants"), including the Companies. The Participants are now negotiating the terms under which these agreements can be renegotiated in order to "buy-down" the price or, possibly, "buy-out" the HQ Contract. It will be essential to commence a proceeding in which the Contract amendments can be approved once

¹The Companies propose separate dockets to allow parties to focus on the discrete actions called for by this Plan. We note that the Board may choose to consolidate these dockets or certain hearing since certain of these matters are utility specific and others involve multiple utilities.

negotiations between the Participants and Hydro-Québec have been completed. The Petition will also seek a Board declaration and finding that the amended agreements are prudent and “used and useful”, and that the costs incurred under the amended agreements are recoverable in rates under Vermont law.

- The Rule 4.100 Proceeding. The price of electricity delivered to Vermont’s electric utilities by Vermont’s independent power producers (the “IPPs”) is very substantially above market at the present time. In Vermont, purchases and sales of IPP power are made through a purchasing agent designated by the Board. At present, the purchasing agent is Vermont Electric Power Producers, Inc. (“VEPPI”), and the electric utilities are allocated a share of this power under PSB Rule 4.100. The Companies have delivered an offer to buy-down or buy-out the contracts with the IPPs. When negotiations are complete, a Rule 4.100 and/or other proceeding will be commenced to implement the new arrangements that have been negotiated.
- The Financing Petition. One essential element of the current effort to renegotiate the HQ Contract is the proposal to buy-down or buy-out the HQ Contract and the contracts entered into between VEPPI and the IPPs. These efforts will involve the issuance of new debt securities by the Companies to finance lump sum payments to the sellers. At the appropriate time, a petition will be filed, pursuant to 30 V.S.A. § 108, seeking the Board’s consent to the issuance of these new debt securities (the “Restructuring Debt”). It is important to emphasize that at this time the Companies propose to issue conventional debt instruments utilizing existing Vermont law to finance their power supply buy-outs

and buy-downs.² The Companies do not propose at this time to utilize any form of financing that even remotely resembles the technique known as “securitization” which involves the assignment of a future revenue stream to a trust or other third party special purpose entity that serves as the primary obligor.

- The Consolidation Petition. At the appropriate time, a petition may also be filed that could lead to the consolidation of some of Vermont’s electric distribution companies into a new company (“NewCo”). At present, this proposal is only conceptual because only very preliminary discussions have begun and the discussions are confidential. As the Board learned during its February 3, 1999 Technical Conference, premature disclosure of negotiations between public companies raises a host of legal issues.
- The Holding Company Petition. CVPS has already commenced Docket No. 6133, in which CVPS seeks to establish a holding company structure. As is explained in the prefiled testimony of Francis J. Boyle in Docket No. 6133, CVPS will eventually become “NewCo”, which will be owned by the Holding Company. The Docket can be amended to accommodate any consolidation agreements achieved under the Plan.
- The Generation Divestiture Petition. A petition will also be filed seeking Board approval of a process that will be used by CVPS and GMP to evaluate their generating assets and purchased power agreements and determine which are most appropriate for sale. Indeed,

²We note that there may be lower cost ways to finance a portion of these Contract buy-downs and buy-outs, particularly in the context of IPP power where both the Vermont Public Power Supply Authority (“VPPSA”) and the Board’s Purchasing Agent, VEPPI, may serve as the financing agent. This Plan leaves open the opportunity to utilize these alternative financing mechanisms but recognizes that the Companies may have to finance their customer’s share of these contract buy-outs and/or buy-downs in order to facilitate the goals and objectives of the Plan in the most timely manner.

- the first step toward the possible sale of Vermont Yankee was taken on February 25, 1999. The appropriate disposition of CVPS's and GMP's interests in Vermont Yankee and the McNeil Plant will be resolved in this proceeding. The proceeding will also determine whether CVPS or GMP should dispose of their small hydro plants and their modified purchase power agreements. This petition will seek Board approval of an auction process with certain specifications and approval of purchasers once they are identified.
- Delivery of Energy Efficiency Services. As is the case with respect to the creation of a holding company, proceedings to resolve energy efficiency issues have already commenced in Docket No. 5980. The Companies, the Department, others of Vermont's electric utilities and interested parties have begun to work towards a settlement in Docket No. 5980, which will lead to a new strategy for the development of demand side management ("DSM") services and the adoption of a streamlined approach for the implementation and delivery of energy efficiency services. The parties to Docket No. 5980 have told the Board that they are actively engaged in settlement efforts. The results of this Docket will be incorporated into the Companies' Plan.
- Retail Access. In conjunction with other elements of the Plan, the Companies will commence a petition to establish retail access for their customers. This Petition will: (i) confirm the Companies' consent to providing their customers retail choice of power suppliers on appropriate conditions; (ii) seek a Board order relieving the Companies of the obligation to supply capacity and energy to consumers; and (iii) establish the Companies as the exclusive electric distribution provider(s) within the new service

territory or territories. The Companies will also propose tariffs to establish open access and customer choice, including all of the administrative aspects related to establishing consumer protections and societal benefits measures including default service.

- The Durable Rate Path Petition. Finally, and as soon as the results of the other dockets summarized here begin to take shape, the Companies will file a petition or petitions pursuant to 30 V.S.A. § 218, seeking to establish a durable rate path (the “Durable Rate Path”). The Board order resulting from this proceeding must provide for revenues in amounts sufficient to support the Companies’ operations and the financings necessary to restructure their power supply portfolios. The Companies must recover in rates an annual amount sufficient to cover their costs, net of the mitigation achieved in the other proceedings.

IV. THE PLAN BENEFITS

The benefits of the Companies’ Plan are real, they are substantial, and they can be easily identified. They are as follows:

- It is clear that Vermont’s electric utility industry must be restructured in order to lower costs for customers. The question is whether it is preferable for a substantial portion of Vermont’s electric utility industry to be restructured in a proceeding overseen by the Board and with the active participation of the Department of Public Service, or for the industry to be restructured in federal Bankruptcy Court, a forum in which Vermont

regulators will have little ability to influence and no ability to control the outcome.³

Restructuring by Vermonters for the benefit of Vermont is clearly the better approach.⁴

- The Plan can be implemented in a timely manner. It does not require a protracted series of proceedings seeking to value or condemn utility assets. It does not involve an extended bankruptcy proceeding like that involving Public Service Company of New Hampshire (“PSNH”) a decade ago, the final resolution of which took over four and a half years. It is estimated that the Plan can be implemented within a reasonable time period.
- If the Companies Plan advances to the Closing, which is described in detail later in the Plan, it may be possible to release each of the other Participants from their existing, unconditional, immediate “step up” obligation, in the event that another Participant fails to make its payments due under the Participation Agreement. This release would be of incalculable value to the small municipal electric companies and cooperatives that are now imperiled by this obligation. If the Companies can structure the implementation of the Plan to achieve this release -- and it is by no means certain that this can be done -- this

³In Vermont the close interrelationship between Vermont’s municipal, cooperative and investor-owned utilities (including the “step-up” and related obligations under the HQ Contract, the Highgate Transmission Interconnection Agreement, the Phase I and Phase II Support Agreements, the McNeil Joint Ownership Agreement, and the Vermont Yankee arrangements) virtually assures that the bankruptcy of either GMP or CVPS will provoke significant and serious unintended consequences, delay, costs and expense that will paralyze the industry for years.

⁴If the Plan cannot be implemented, for whatever reason, bankruptcy is clearly the default option. But the bankruptcy of GMP and CVPS will represent a failure of Vermont institutions to solve the problem, not a solution to the problem. As Judge Yacos said, in one of his many decisions during the course of the bankruptcy of PSNH, over a decade ago: “[t]he very fact of the ...chapter 11 filing demonstrates beyond dispute that in this instance the state regulatory system failed to effectively balance all economic interests.”

benefit, standing alone, is a sufficient reason for everyone to support a well structured implementation of the Companies' Plan.

- Implementation of the Plan will bring retail choice to a substantial number of Vermonters.⁵ Retail choice and the resulting competition that it will generate should engender benefits to Vermont's citizens. If the Plan is implemented, the cost of electric service for customers should be lower than it otherwise would be throughout the period of the Durable Rate Path and thereafter.

V. TIMING

The Companies propose to follow the broad outline of the work recently concluded in New York leading to the successful restructuring of Niagara Mohawk Power Corporation ("NIMO"). NIMO's very existence was imperiled by a substantial number of overpriced contracts with independent power producers in its service territory. The NIMO restructuring took about 2 ½ years. However, the Companies believe that the NIMO experience and the lessons learned should help us to shorten the process in Vermont.⁶ The tentative timetable calls for a closing (the "Closing") by June 30, 2000.

The Closing will occur after the best agreement that can be negotiated with each of Hydro-Québec and the Vermont IPPs have been reached, and when the Board has issued final

⁵We note that many other states are moving toward retail choice, especially in the Northeast. These policy decisions have been prompted by the belief that competition in the electric sector will stabilize and reduce electricity costs. The Companies' Plan is consistent with this national effort.

⁶The NIMO restructuring lost nine months at the front end because the parties attempted to negotiate a rate settlement before NIMO renegotiated the power contracts with the independent power producers. In sharp contrast, the Companies propose to reform their new power contracts with HQ and the IPPs at the front end. Doing so may save nine months to a year.

orders approving: (i) the renegotiated contracts with HQ and the IPPs; (ii) the issuance of the Restructuring Debt, the proceeds of which will be used to buy-down and/or buy-out the power contracts; (iii) the establishment of the Durable Rate Path that will provide cost-recovery to service the Restructuring Debt and recover each of the other elements of the agreed-upon cost of service; and (iv) the relief essential to restructuring requested in the other dockets referred to above and when the Restructuring Debt has been sold. Only at that point will the Closing occur. Substantially all of the transactions contemplated by all of the dockets will occur simultaneously, or else nothing will occur and this effort to restructure Vermont's electric utility industry will have failed.

VI. FIRST STEPS

Clearly, the first elements in the Companies' Plan is to strike the best bargain that we can with Hydro-Québec and the IPPs. We are hard at work at this right now:

- Hydro-Québec: If the Plan does not succeed, and one or more of the Vermont Participants is forced to commence a bankruptcy case, Hydro-Québec will, in all probability, become just one of many unsecured creditors in the bankruptcy proceedings. The amount and timing of its recovery is uncertain.
- Vermont IPPs. The position of the IPPs in a bankruptcy case involving a Vermont Participant is even more uncertain. Under one plausible interpretation of the numerous rules and agreements governing those arrangements, VEPPI may not be authorized to sell any IPP electricity to a Vermont electric utility that has declared bankruptcy, and other utilities may be required to pay for the electricity that had formerly been allocated to the bankrupt utility.

The Companies are working diligently to pursue each negotiation at the present time.

VII. THE INTEGRATED RESTRUCTURING PROPOSAL

It is important to re-emphasize that the Plan is an integrated plan. All elements of the Plan must take place or nothing will happen. The Companies have proposed separate dockets only to allow them to focus on the discrete actions that must take place and the approvals that must be received, and because certain dockets will involve multiple utilities and are therefore not utility specific. The elements that are outlined are all essential elements of a comprehensive restructuring of the Companies' electric utility businesses. This portion of this position paper explains, in more detail, how each element of the Companies' Plan is integrated with each other element.⁷ We accept that the Board may wish to convene these dockets in a different order or that the Board may consolidate hearings and issue all orders simultaneously. What is important to the Companies is that the Board recognize that all elements of this Plan are contingent on the completion of all other elements as described herein.

A. Step One A: CVPS, GMP and other participating utilities are attempting to negotiate a proposal that would buy-down or buy-out the HQ Contract. Once the HQ Contract has been renegotiated, it will be tabled until all of the other elements of the Plan are ready to be implemented. Everything will then be implemented at the Closing. It is for that reason that CVPS and GMP hope to proceed as quickly as they can given all of the difficult issues that must be resolved.

⁷Note that the expansion of the VELCO transmission system is another action that is being pursued in an effort to lower costs for customers. However, completion of this effort is not a necessary precondition to the implementation of the Plan and it is not an element that must take place prior to the Closing. The VELCO project can be developed at its own speed and resulting mitigation can be addressed in subsequent proceedings.

It is important to emphasize that this proposal will buy-down only the Companies' portion of the HQ Contract (or possibly buy-out the Contract). The Companies intend to negotiate terms that will be made available to all of the Participants. But the other Participants must develop their own financing plans or work with the Companies to develop joint plans. Most of the other Participants are at work at this now. VPPSA is actively at work on a similar restructuring proposal and the Companies are attempting to coordinate their efforts with VPPSA.

B. Step One B: The Plan also calls for renegotiation of the contracts with the Vermont IPPs in order to buy-out or buy-down the contracts between Vermont's Purchasing Agent and Vermont's IPPs. The Companies recently made such a proposal to buy-down the contracts with the Vermont IPPs. We expect negotiations to commence in earnest. When the negotiations with the Vermont IPPs are complete and the Board has approved the resulting contractual arrangements, the renegotiated contracts will also be tabled until all of the other elements of the Plan are ready to be implemented and then everything will be implemented at the Closing.

C. Arrange the Restructuring Financing: As previously noted, the next element of the Plan involves petitioning for and receiving Board approval, pursuant to 30 V.S.A. § 108, to issue the new Restructuring Debt in amounts sufficient to buy-down and/or buy-out the Companies' portion of the HQ Contract and the IPP contracts. As previously noted, the Companies propose to buy-down and/or buy-out the contracts by issuing new debt pursuant to authority granted by 30 V.S.A. § 108. This is the same statutory authorization that Vermont utilities have used for almost a century to issue first mortgage bonds, preferred stock, common stock, and other evidences of indebtedness. NIMO utilized comparable, conventional methods of

financing to buy-down the New York IPP contracts. The Companies propose to do the same thing here.⁸ The Companies do not propose at this time to use any form of “securitization” as that term has been used in other electric utility restructuring projects. If the Vermont legislature or the Board, however, wishes to achieve cost reductions in addition to those produced in the Companies’ Plan, the legislature or the Board might authorize “securitization” of certain costs in a way that would further reduce the borrowing cost. The benefits of securitization could be used to further reduce the prices set forth in the Durable Rate Path. A portion of the savings could be allocated to encourage further energy efficiency and clean technology initiatives.

Once the dollar amount of the Hydro-Québec and IPP buy-downs and/or buy-outs are known, CVPS and Donaldson, Lufkin & Jenrette (“DLJ”), which is serving as CVPS’s financial advisor in this restructuring process, and GMP and New Harbor, which is serving as GMP’s financial advisor, will develop the definitive financing plan. DLJ served as NIMO’s financial advisor and it accomplished the work for NIMO in a timely fashion. DLJ and New Harbor are confident that they can do the same thing here. The Board will be asked to consent to the issuance of the new Restructuring Debt at the same time that it approves the Durable Rate Path, because one depends upon the other.

⁸ Again, we do note that there may be lower cost ways to finance a portion of the IPP buy-downs and buy-outs, where neither CVPS nor GMP are in privity of Contract with the power sellers. In these instances the Plan allows for creative financing by either VPPSA or VEPPI, the Board’s Purchasing Agent under Rule 4.100, should either entity develop a financing mechanism that lowers costs for consumers or provides other benefits. In the absence of such a development, the Companies’ Plan defaults to the use of the unsecured utility debt described herein.

Once all of the other approvals to issue the new Restructuring Debt have been received, the Restructuring Debt will be readied for issuance and tabled until all of the other elements of the Plan are ready to be implemented and then, everything will be implemented at the Closing.

D. Pursue Consolidation Opportunities: One important contribution made by the Working Group Report was the strong recommendation that the “consolidation of Vermont utilities” should be considered, in the context of an overall restructuring plan, in order to achieve efficiencies and economies of scale (Working Group Report at 14). Only very preliminary confidential negotiations have begun. At the appropriate time, the Companies may become joint petitioners in the Consolidation Petition referred to at the outset of this position paper.

E. Establish the Holding Company: CVPS has already filed a petition seeking approval to establish a holding company and the petition is being reviewed in Docket No. 6133. Discovery is ongoing in that case. Eventually, NewCo may merge with or acquire the assets of one or more of the other electric distribution systems in Vermont and the Docket may be amended to permit those systems to be merged into NewCo. NewCo will be owned by the newly formed holding company. When all of the work has been done to establish the holding company structure and the structure has been approved by the Board, the structure, and all of its components, including the rules governing affiliate transactions and the standards of competitive conduct, will be tabled until all of the other elements of the Plan are ready to be implemented and then everything will be implemented at the Closing.

F. Establish the Generation Sale and Auction Process: CVPS and GMP propose to divest all or nearly all of their generation interests. As a first step toward divestiture, on February 25, 1999, the Vermont Yankee Board of Directors announced that Vermont Yankee had

granted an exclusive right to AmerGen Energy Company to conduct due diligence and negotiate a possible agreement to purchase the assets of Vermont Yankee. The Companies will describe their divestiture plans, in more detail, at a later time when the results of the power contract renegotiation efforts are more defined. As that plan will clarify, CVPS and GMP are committed to hold a broad-based auction of all or nearly all of their generation interests including an auction of the restructured HQ and IPP power-purchase agreements (special attention must be given to the structure of the auction of IPP obligations arising under PSB Rule 4.100). The Companies are studying whether they should retain their small hydro units and CVPS and GMP are also studying the most appropriate method of handling their interests in Vermont Yankee Nuclear Power Corporation. The issues that are involved here are very sensitive, and the Companies needs more time before they announce a definitive auction and/or sales plan.

To the extent that the proceeds of the auctions are obtained after the Closing, a portion of those proceeds may be applied to reduce the Durable Rate Path.

G. DSM Proceedings: CVPS and GMP also plan to outsource their DSM obligations to an Energy Efficiency Utility or “EEU”. All of the issues involved in this effort, including proposals to modify the least-cost planning requirements set forth in 30 V.S.A. §§ 209(d), 218c and 218(b), and the Board’s orders in Docket Nos. 5270 and 5330, are before the Board in Docket No. 5980 and will be the subject of the Companies’ Petition to amend the Certificate of Public Good issued in Docket No. 5330, if necessary. These issues, as previously noted, are under active discussion in Docket No. 5980 and must be resolved prior to the Closing.

H. Retail Access. As previously noted, the Companies will also commence a proceeding in which all of the rules concerning retail access will be developed. The issues are

complex, they involve system and region wide issues, and discussions are still in process to resolve those issues. The Retail Access Petition will be filed when all of the issues have been resolved.

I. Complete Work in the Durable Rate Case: As decisions are made with respect to the amount of the HQ buy-down or buy-out, the amount of the IPP buy-down or buy-out, the terms of the new debt securities to be issued, the efficiencies that can be achieved through consolidation, and the benefits that can be achieved through divestiture of the Companies' fossil and hydro generation, the shape of the durable rate path will begin to appear and the Companies (or, perhaps, NewCo) will file a proceeding with the Board under 30 V.S.A. § 218. As noted, it is expected that the Section 218 proceeding should be filed by September 1999. The basic elements of the Durable Rate Path will include, at least, the following:

- The renegotiated HQ Contract and renegotiated IPP agreements must be found to be prudent, used and useful, and recoverable in rates to the extent provided in the Durable Rate Path.
- The Companies must recover the amount of the remaining costs associated with their implementation of the Plan, including the implementation and transition costs, as well as all costs of the contracts to be executed pursuant to the Plan.
- The Durable Rate Path proceeding will create a regulatory asset and associated amortization schedule (tied to the term of the Restructuring Securities) that will raise revenues that are sufficient to service principal and interest in respect of the new Restructuring Debt. These costs must be recoverable in rates. The order providing for them, once final, must not be changeable, either directly or indirectly. The Companies

will not be able to issue the Restructuring Debt if the financial markets believe that the Board can undo the Durable Rate Path, after the fact.

- Overall rate levels will be established for each year of the Durable Rate Path.
- Certain events that can be identified as having an impact on the Durable Rate Path will permit adjustments to the Durable Rate Path, if they occur.
- In the event that the sale of generating assets and power contracts is deferred until after the Durable Rate Path takes effect, appropriate benefits for customers will be recognized.
- The Board must make it clear that it will regulate the emerging distribution companies in a way that will allow the Companies to continue to be operated consistent with the principals of SFAS No. 71.

Obviously, many other details of the Durable Rate Path will be developed during the first nine months of 1999.

IX. CONCLUSION

As this paper makes clear, the Plan to restructure the Companies (which may, perhaps, become NewCo) is difficult and time consuming, but it can be accomplished in a manner that benefits customers and meets the goals of the Vermont Principles on Electric Industry Restructuring. A Durable Rate Path is needed that will permit the Companies to perform all of their obligations to their customers, once the Plan has been implemented, and to achieve financial stability. If the Plan can be implemented, the Companies will emerge from the restructuring process as distribution companies operating to provide only distribution services in a market in which customers will eventually be able to pick an energy supplier from several competitive choices. If we cannot make this work -- and by the term “we” the Companies mean the State of

Vermont (the Board and the Department) and the Companies' customers, both large and small -- a bankruptcy filing will be the inevitable outcome.

The experience in New Hampshire a decade ago demonstrates that the reorganization of an electric utility in a Chapter 11 proceeding can result in higher electric rates and almost no focus on long-term solutions that benefit the State and its ratepayers. As Judge Yacos said in one of his many decisions during the course of the PSNH bankruptcy: "[t]he very fact of the . . . chapter 11 filing demonstrates beyond dispute that in this instance the state regulatory system failed to effectively balance all economic interests." The Companies' have presented a plan that will prevent that from happening in Vermont. Vermont should give the Companies the opportunity to make the Plan a reality.

EXHIBIT 1

VERMONT PRINCIPLES ON ELECTRIC INDUSTRY RESTRUCTURING

The Workgroup has agreed on two overarching principles that should guide any development of a restructured electric industry in Vermont and the region. They are **efficiency** and **fairness**. A restructured industry should provide opportunities to capture improved efficiencies in the production, delivery, and use of electricity, and seek to maximize customer value at the least cost to society.¹ In addition, the system should treat all producers and consumers equitably, according to the costs they impose and benefits they derive, both during and after the transition to a restructured industry. Realizing such efficiency gains should improve the well being of society and promote the economic vitality of Vermont.

These fundamental principles can be broken down into a set of fourteen more precisely defined principles.^b A policy of increased competition in the electric utility industry may be desirable to the extent that such a policy can be defined and implemented in a manner that preserves and promotes the following interdependent principles.^c

1. High-quality, reliable electric service must be maintained. We must maintain a level of system integrity sufficient to accommodate a full range of customer reliability and power quality choices.
2. Public health and safety must be assured.
3. Efficiencies in the production, delivery and use of electric services must continue to be increased where possible.
4. Nondiscriminatory open access to the electric system for wholesale transactions must be promoted.^d Comparability must be assured for generators competing with affiliate interests of bottleneck service providers (*i.e.*, transmission and distribution services).
5. Retail customer choice can provide benefits beyond those provided by a competitive wholesale market. Customer value may be increased through the expansion of choice among providers and types of service.^e Therefore, methods of restructuring to be explored must include, but not limited to, retail choice.
6. Environmental protection is a priority; any restructured industry system must ensure a high level of environmental quality and reduced environmental cost.^f

Vermont plans for restructuring must include precise and realistic mechanisms to secure attainment of this principle.

7. A restructured industry must preserve key public benefits of the current system, including cost-effective end-use efficiency, research and development, and the development, commercialization and use of renewable resources.

Vermont plans for restructuring must include precise and realistic mechanisms to secure attainment of this principle.

8. Existing commitments of utilities arising from past decisions made pursuant to historic regulatory and legal principles must be honored. Utilities are entitled to recover legitimate, verifiable, and otherwise recoverable and prudently incurred costs pursuant to those principles. Utilities have an obligation to take all reasonable measures to mitigate the costs of their existing commitments.

Vermont plans for restructuring must include precise and realistic mechanisms to secure attainment of this principle.

9. Electric service is a basic necessity. Any restructuring of the electric utility industry must address the needs of consumers in general and in particular low-income consumers. Reform proposals must specifically empower all consumers with the necessary resources to assume responsibility and accountability for their electrical services.

Vermont plans for restructuring must include precise and realistic mechanisms to secure attainment of this principle.

10. The benefits of restructuring must extend equitably to all classes of consumers.^g The benefits of restructuring must not be achieved through shifting of costs among customer classes.
11. There must be a clear system of public accountability and public participation in any restructured system. The implications of a new utility structure must be thoroughly understood before being implemented.
12. Vermont's policy must enhance the ongoing competitiveness of its businesses and economy.
13. Universal access to safe, efficient and reliable electric distribution service must be assured in a restructured industry. Electric distribution service must be available to all customers. Restructuring of any other aspect of the electric industry must not harm or reduce customer access, customer service or customer protections in regard to electric distribution service.

Universal access to reliable, reasonably priced electric service must be assured in a restructured industry. Electric service must be available to all consumers, and no

consumer should be denied continuing or new service because they are deemed to be undesirable in a competitive environment. Achieving this end may require designation of a provider of last resort (which may be the local distribution company or some other entity), or it may be achieved through requirements placed on some or all retail electric service providers.

14. Restructuring must maintain and improve upon customer service safeguards and protections, including line extensions, service connections, deposits, bill payment options, budget billing, disconnection notices and limitations, reconnection, metering, due process and appeal, and liability. Additional customer service requirements and customer protections may need to be developed in response to restructuring.

1. By the phrase "maximized customer value at the least cost to society" we mean to include both customer value and costs that would result from efficient markets and those other costs that are external to market transactions.
- b. Each statement of a principle is intended to apply both the transition and the ultimate outcome.
- c. These principles represent provisional compromises and are agreed to on the condition that agreement is also reached on the specifics of implementation.
- d. This includes both transmission and ancillary services. (Note: Wholesale access may include access for wholesale transmission services to physical facilities typically referred to as distribution plant.)
- e. Customers must be held accountable for their choices made in open market. Such accountability must extend to risks that exist in normal functioning markets (*e.g.*, loss of service resulting from business failure of a chosen service provider). Nevertheless, the legal obligations and associated responsibilities of ongoing entities to meet commitments established under contract will provide certain protections.
- f. The word "system" is not intended to reflect the physical electric industry; it should be interpreted to reflect the system more broadly.
- g. Equity, here, is also intended reflect a temporal component. The benefits of restructuring must extend to all customer classes contemporaneously.